UNITED STATES DEPARTMENT OF AGRICULTURE
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# PRICE POLICY

Address by Richard V. Gilbert, Economic Adviser to the Administrator and Director of Research, Office of Price Administration, at the 21st Annual Agricultural Outlook Conference, Washington, D. C., October 18, 1943.

It is rather significant that while the topic of your conference last year was, "Will we control inflation?" the topic this year is, "Will we hold the line?" I am flattered to be asked to talk to you a second time for although you may occasionally look with suspicion on the War Labor Board, you reserve your aversion for the Office of Price Administration. Last year I took my courage in my hands and said we would control inflation, and I take my courage in my hands today and say, We will hold the line. The difference in the topic, however, suggests that a very real change has been going forward. We have had a growth of control techniques. What is equally important, we have had a growth in the determination to do the job. Where we were satisfied a year ago to slow down the rate of increase, today we are under marching orders to hold the line.

Between September 15, 1942, which was the base date written into the Stabilization Act of October, and May of this year, the cost of living grew 6.2 percent. That is a very innocent little figure, but behind it lies a very real story--a story I propose to tell. If you break down the increases in cost of living which occurred in that 8-month period, you find that in the 60 percent of the cost-of-living index which is made up of nonfood items (which would include clothing, house furnishings, and miscellaneous items such as drug supplies, and consumer services) rents increased not at all, clothing increased less than 2 percent, and house furnishings a little more than 1 percent. The highest increase in any group was the increase of about $3\frac{1}{2}$ percent in the miscellaneous component of the index. That component is extremely difficult to control, and over parts of it we, by law, can exercise no control. For that 60 percent of the cost-of-living index we did a remarkably able job of price control. I challenge anyone to contest that proposition. We were told to stabilize those costs, and in the face of the greatest pressure upon prices in our history we stabilized them.

The damage to the cost-of-living index was really done on the food front. As you know, food constitutes about 40 percent of the index, and food prices during that 8-month period increased by 13 percent. That increase of 13 percent in food prices accounted for more than 80 percent of the increase in cost of living during that period.

To put that a little differently, if we had not had that increase in food prices, the increase in the cost of living over the 8-month period would have been one-fifth of what it actually was.

But even on the food front there is quite a story. If you break down the food budget into fruits and vegetables and all others, you find that all other foods constitute about three-quarters of the budget, and fruits and vegetables about one-quarter. So far as the three-quarters of the food budget is concerned, we held the increase in prices to something under 4 percent. On the other hand, the fruits and vegetables which were not controlled in that period went up 58 percent, and that 58-percent increase accounted for three-fifths of the total increase in the cost of living over that period.

Now, let me summarize that and put a slightly different slant on it. So far as the 60-percent of the cost-of-living index composed of nonfoods, and so far as the three-quarters of the food budget, equalling 30 percent of the cost-of-living index are concerned, we did an effective job of stabilization. The real damage was done by 10 percent of the cost-of-living index--by one-quarter of the food budget which is made up essentially of the fruits and vegetables, which we did not, in fact, have under control during that period. From that point of view, it seems perfectly fair to draw the conclusion that, with the exception of these items which we did not attempt to control, an extremely effective job of price control was done, and that with regard to 90 percent of the cost-of-living index we toed the mark in regard to the directive laid upon us by the Congress.

However, in the spring of the year, the increase in food prices, particularly for fruits and vegetables, had produced a crisis on the wage front. In the last week in April we were confronted by a threat--which later proved to be a certainty--of the coal strike. We had to make up our minds fast, that week, whether we would let the price program ride and run the risk of a general break-down on the wage-stabilization front, or whether we would try to undo the damage that had been done on the price front. We chose the latter course, and I think we chose wisely. Since the damage had been done in the field of foods, and more particularly in the fruits and vegetables, it was natural that the program at that time should be one to wash out some of the increases that had occurred in that component.

In the roll-back program for meats and butter which was announced at that time we undertook to put back the price of meats and butter by 10 percent. That has now been accomplished. That roll-back has washed out the whole of the increase of the three-quarters of the food budget which occurred between September and May. As of today, the cost of the three-quarters of the food budget to the American housewife is right back to where it was in September 1942.

With regard to the fruits and vegetables, we contemplated at that time a broad program designed to bring them down, if not to the level of September 1942, close to those levels. In the absence of price control we had witnessed a fabulous increase in these prices. A large part of it was an increase in farm returns, an increase which I have never heard any economist, in or out of the Government, dispute. In the year between March 1942 and March 1943 the price received by farmers for cabbage increased seven fold. A number of other increases almost as large could be cited.

What is even more significant is that of the entire increase in the price of fruits and vegetables only 40 percent was due to the increase of farm returns; 60 percent was due to increases in marketing margins. So that I think it perfectly fair to say that the damage done to the consumers was reflected in only limited degree in an improvement in the position of the farmer-producers.

We undertook at that time, then, to develop a program which would squeeze some of the water out of these distributors' margins. And, remember, those margins were extremely high in September of 1942, because they had not been controlled before that time, as had been true of most other food items sold at retail.

During the course of the summer we rolled back cabbage prices by 50 percent, and lettuce by 25 percent. Recently a program for winter vegetables has been announced which will cut those prices back very materially. When we have wound up that part of the program I think it will turn out that we have not in fact reduced farm returns but we will have cut back distribution margins about to the levels that prevailed in September. Or to put that a little differently, we shall have returned the retail price about 60 percent of the way back to the levels that prevailed in September. In my judgment, that is overly generous on the farm front, but that is where the matter stands.

It is worth your while to stop and think of one aspect of the developments of the spring which bears directly on an idea that is running around--that the country doesn't have to choose between complete stabilization on the one hand, and inflation on the other; that you can have controlled inflation--just as much as you want, and no more; you can turn it on and off as a spigot.

This notion is a snare and a delusion. We can demonstrate this on the basis of our experience. When we issued the General Maximum Price Regulation we had what we thought was, and what turned out to be, a rather workable mechanism for holding prices in line. We set up a regulation which said to every retailer, "You may not sell at a higher price than you charged in the month of March 1942." The regulation was clear, simple, and enforceable. If we could have kept it simple and clear we would have had no difficulty with retail prices. Under the pressure of rising farm prices, however, we were, of course, obliged to increase the prices of the retailers to protect the retailers and wholesalers from an intolerable squeeze. Every time we increased a price to the retailer we were obliged to amend the General Price Regulation, or to amend one of the specific regulations, covering that commodity or group of commodities. In the course of the summer following the issuance of the General Maximum Price Regulation, it was necessary to raise these prices again and again. We wound up at the tail-end of the year with a structure of food-price control which was an unholy mess, to put it mildly.

The Office has been savagely criticized, not only by the food trade which had reason to criticize us, but by other groups, such as this group, which did not have reason to criticize us--on that ground at any rate--because of the workability of our structure of retail food price control. The fact cannot be overemphasized that a grocer who sells thousands of items cannot be expected to abide by the regulations as written, when legal prices of these items change day by day or month by month. What is more significant, we cannot expect consumers to help us enforce these prices unless these prices stay put so that housewives know what the legal prices are.

In about May of this year we made a survey which indicated that, on the average, retailers were charging about 5 percent in excess of ceiling prices. And that survey only scratched the surface of black-market operations. With prices averaging 5 percent above ceiling levels, you know that in many

cases the prices charged ran 25 and 30 and 50 percent above the ceilings. We cannot hold prices, we cannot make our regulations work unless having said, "These are the prices," we stay with them for a considerable period of time.

So-called controlled inflation (which means we have a little inflation, but not a lot—$\frac{1}{2}$ of 1 percent, or 1 percent increase per month in the cost of living) just can't work, because you can't make it work administratively. The $\frac{1}{2}$ of 1 percent per month gives the same complexity of regulation as 50 percent per month gives. Under this method we cannot make price control work and cannot hold the cost of living down to the moderate rate of increase; what we get at that point is run-away, and not controlled, inflation. Prices walk for a while, then they run and, before long, they gallop.

Coming back to the developments since May, the roll-back program for butter and meats, and the program for the fresh vegetables, coupled with some other actions taken by the Office, stopped the increase in the cost of living which had proceeded without interruption since October 1941. And every month since May the cost of living has come down. That is clear in your charts. The cost of living will go up moderately in this next month, and then will continue downward as our fruit and vegetable program is put into effect. We expect that the programs now about to be put into effect, will bring the cost of living down to a margin of about 2 to $2\frac{1}{4}$ percent above that which prevailed in September 1942.

From that point on the question is, Will we hold it? I think the answer is "yes." Let me give you some of the reasons for thinking so. First of all, what is the arithmetic of the situation? Now, farm income last year was about 125 percent higher than it was in 1939. This year it will be up between 20 or 25 percent more. Therefore, it will stand 180 percent above the level of 1939, and some 4 billions above the highest level reached during World War I. That is net income, after all expenses.

Looking at the distribution of net farm income by commodities, you find the same general situation. On practically every front, farm prices have risen vastly more than farm costs. Let me say in passing that it would have been appropriate if there had been placed before this group a chart indicating what happened to prices paid by farmers in the two wars alongside the chart showing what happened to prices received. Then you would have noticed that whereas the prices received have moved up in about the same degree, prices paid by farmers have moved up less than one-third of what they did in the last war, and one-third of the increase in prices received in this war. What really counts on the farm front is the relationship between prices received and costs to farmers. We have successfully held the costs of farming, and we have permitted an increase in the spread between cost and ceiling price.

That is what has produced this enormous increase in farm income, and that is what lies at the base of the proposition that the farmer today is in better economic position than he has ever been before in our known history. This is a very good thing. I rejoice in it. What it means, in my judgment, however, is that there is enough elbow room on the farm front to permit some increase in cost, and some increase in cost there must be. There is enough elbow room to absorb that increase of costs without requiring that ceiling prices be punctured.

A decision was made a little while ago which will stand out as a landmark in the stabilization effort during the past year--a decision to reduce the support price of hogs from $13.75 to $12.50, to become effective in September of 1944. There is a long story back of that; I will touch on it briefly.

Most of you are fully aware of what lies back of that decision. Hog prices were away out of line with feed prices, and therefore away out of line with practically everything on the farm front, especially prices for dairy products and meats. We were confronted with a choice between permitting the prices for feeds, and therefore prices for dairy products and poultry and eggs and meat, to move up into balance with hog prices, or to bring hog prices down into balance with the rest of the price structure on the farm. In the period since the support price of hogs was increased (April 16 this year) to the time when the support price was reduced, that issue was in the forefront of the discussions in Washington. The unpalatable decision to reduce the price of hogs to bring it into balance with other prices, rather than to raise other prices to the level of hog prices, in my judgment, will stand out like a beacon light when the history of this period is written.

That decision, in my judgment, marked the turning point. Before that time there might have been some question as to whether we would hold the line. Since that time, in my judgment, there is no question. That decision has given us some prospect of getting balance in the feed situation. With balance in the feed situation, there is a reasonable prospect that we can hold the line on dairy prices, and on egg prices.

Turning to the dairy situation, in some ways it represents a perfect example of the kind of difficulties which we are called upon to face in holding the line. Dairy products, probably everyone will agree, stand at the bottom of the list of profitability on the farm front. It is true that until very recently dairy returns increased more than dairy costs of production. That statement will be challenged in this group, but I can prove it. Let me put one strategic statistical figure before you on this question. In spite of the alleged hardship on the dairy front, the price of milk cows rose steadily month by month, up to 2 or 3 months ago, increasing almost 100 percent during the period of a year. Now, no one can tell me that the dairyman was losing money and at the same time paying more for the cow that was enabling him to lose money. The fact that those prices turned downward during the last couple of months demonstrated that the pressure on the dairyman was becoming real for the first time.

Now, remember, I don't for a moment contend that the dairyman isn't at the bottom of the list for profitability on the farm front. Something had to be done for the dairyman if production was to be maintained. <u>Something has been done for the dairyman in the program recently announced.</u> This program helps the dairyman and at the same time enables us to hold the retail price of milk and milk products where they now are. If this program stands, and I am confident it will stand, it would appear to me that we should be able to deal with similar but less difficult situations as these situations develop.

The only other major threat I see during the next half year or so is an increase in the price of wheat, and therefore in the price of flour, and therefore finally in the price of bread. No one, so far as I know, contends that an increase of wheat prices is necessary for production reasons. That increase in wheat prices will be occasioned by the parity provisions of statute, coupled with the elimination of parity payments.

I may say in passing that one of our difficulties is a difficulty which we cannot deal with at this time, but which this group must come to grips with when the war is over. The parity formula is imperfect and must be reworked. Looking at the position of the dairyman, it is perfectly obvious that if parity prices are right, on the dairy front, then parity prices are wrong on the feed front, or vice versa. You can't have it both ways. Sooner or later the parity formula has got to be reexamined realistically in the light of actual costs and in relation to actual prices, all up and down the farm front, if we are ever to get a balance in structure of farm prices which will enable all the important farm crops to be produced under reasonably equal and favorable conditions.

There is a great deal more I wanted to say but I must summarize. For 8 months during the year, since the Stabilization Act was passed, our grip on the cost of living, particularly on the fruits and vegetables, was slipping. When we were confronted, however, with the labor crisis in the spring we decided not to continue the retreat that had characterized our operations for the 2 years we had been in business-a retreat which always left us in weaker position to defend the new line. We decided to take the offensive and to bring back the cost of living in those areas where it had got out of hand. We have been doing that month by month, since May. When the program is completed we expect that the cost of living will be about 2 to $2\frac{1}{4}$ percent above the levels that prevailed in September of 1942. It will then be a question of holding that new line. We believe that the decision which has been made regarding support prices of hogs, and the decision which has been made regarding dairy prices, and the forthcoming decision to be made regarding flour and bread, give us reasonable assurance that the price of foods a year hence will be no higher, and my in some respects be somewhat lower, than it is at this time. That is entirely consistent with a further increase in net farm income of from 10 to 15 percent.

Unfortunately time does not allow me to explore with you some difficulties on our other fronts, particularly on the clothing front.

In closing let me say a word about subsidies. There is no time to develop a full argument on this point. You have heard it debated ad nauseam. I want to put it to you, however, in terms of a very simple proposition and a very simple alternative. Whether or not subsidies will be used effectively in this country is a matter of judgment. They have been used effectively in Britain and in Canada. I don't have to mention to this group the dangers that are inherent in the use of subsidies. I fully share the concern that has been expressed that these subsidies will be much more difficult to get rid of than they are to introduce; that they will be used for political purposes, and so on.

But I do want to point out that in a war we are bound inevitably to use dangerous instruments. Every instrument of war is a dangerous instrument. Price control is a dangerous instrument, and so is rationing, and so is production control and distribution control, and priorities, and so is everything up and down the line. The British people and the Canadians have been able to use these dangerous instruments without hurting themselves; what reason is there to suppose that we shall not be able to do what they have done? What reason is there to suppose that while their democratic Governments are sufficiently grown up to be entrusted with the use of man-sized tools, a democratic Government in this country is not to be entrusted with the use of these tools?

So far as the basic question is concerned, I can put it to you simply. You are all acutely aware of the problem of production on the farm front, and you know the limitations in the successful use of mandatory orders on that front. When we were discussing the question of corn during the summer, and the wet-processors were closing down because of the lack of corn, while the farmers had corn beyond their needs, it was proposed again and again that we compel the sale of that corn. It was just as frequently pointed out that you would have to call out the Army to do it, and even so it was a very real question as to whether the Army would take the farmer into camp, or vice versa.

Have you ever stopped to realize that you face in the labor question the same story that you face on the farm? You face the same stubborn material. Don't think for a moment you can push them around in one place and not in another. You have got to be reasonable or you just won't get away with a program.

In spite of the commitment made by the President in April of last year to stabilize the cost of living as well as wages; in spite of the repetition of that commitment in his message to the Congress on Labor Day of last year; in spite of the statute of the Congress which directs that both cost of living and wages be stabilized to September of last year--in spite of these commitments can the Government break faith with labor and attempt to stabilize wages without stabilizing the cost of food? Would we not pay for such action in strikes, in slow-downs in the production of materials we must have to win the war?

I don't want to press the point, but I must say that a great deal of the threshing over of difficulties on this front has seemed to me extremely naive--realistic no doubt in regard to the farm front, naive in regard to the wage front. We have exactly the same problem in both cases, and we have got to have exactly the same policy in both cases or we just won't be able to make it stick.

The decision of the Congress last year to require the stabilization of prices and wages at the level of September was, in my opinion, an extremely wise decision, one of the wisest decisions made by this Congress. It is wise because during the war period up to that time the country was torn increasingly by strife and by envy, with the farmers pointing the finger of envy at the weekly or annual earnings of the war workers, the war workers complaining bitterly about the price of foods, and both farmers and workers pointing at every businessman as a profiteer. We were sitting on a case of dynamite. The Congress very wisely saw that this process had to be stopped; the country had to be told that, no matter what had happened

to various groups up to that time, from that time forward everyone had to rest content with the economic position in which he found himself in September 1942 except for gross inequities. The emphasis, let me say, should be placed on gross--not merely inequity, but gross inequity.

In other words, the Congress said that, for the duration, it is the job of the administrative agencies of the Government to hold the balance as it was in September of 1942, and to make exceptions only in the rare cases of gross inequity.

When you have stopped and thought about this concretely, I believe you will agree with me that to ask the Government to examine the whole structure of distribution and to determine who has a right to more and who has not a right to more would be to impose upon the Government an impossible task. The thing to do in wartime was to say, "Hold the balance even." That means "Hold the line ! " We propose to hold it.